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NECA NATIONAL EXCHANGE CARRIER ASSOCIATION

100 South Jefferson Road
Whippany, New Jersey 07981
201/884-8160

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Joanne Salvatore Bochis
Associate General Counsel

July 27, 1993

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

Re: GSF Order Compliance Filings

CC Docket No. 93-193

Dear Mr. Caton:

Enclosed herewith for filing with the Commission are the original and seven copies of the National Exchange Carrier Association, Inc.'s Direct Case in the above-captioned matter.

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of this letter furnished herewith for such purposes and remitting same to bearer.

Very truly yours,

Joanne S. Bochis

Joanne S. Bochis

LAD

JSB/bas
Enclosures

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
GSF Order Compliance Filings	)	CC Docket No. 93-193
	)	
	)	

DIRECT CASE

The National Exchange Carrier Association, Inc. (NECA) submits its Direct Case in response to the Common Carrier Bureau's 1993 Access Tariff Designation Order.[1] This Direct Case demonstrates that NECA has properly reallocated General Support Facilities (GSF) costs in accordance with the GSF Order.[2]

I. BACKGROUND

On April 2, 1993, NECA filed its 1993 Annual Access Tariff rates to become effective July 1, 1993.[3] Prior to that effective date, the Commission released the GSF Order, adopting rule modifications to correct the misallocation of GSF investment and related expenses among the Part 69 cost categories for exchange

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[1] 1993 Annual Access Tariff Filings, National Exchange Carrier Association Universal Service Fund and Lifeline Assistance Rates, GSF Order Compliance Filings, Bell Operating Companies' Tariff for the 800 Service Management System and 800 Data Base Access Tariffs, Memorandum Opinion and Order Suspending Rates and Designating Issues for Investigation, CC Docket Nos. 93-193, 93-123 and 93-129 and Trans. No. 556, DA 93-762, released June 23, 1993 (1993 Access Tariff Designation Order).

[2] Amendment of the Part 69 Allocation of General Support Facilities Costs, Report and Order, CC Docket No. 92-222, FCC 93-238, released May 19, 1993 (GSF Order).

[3] National Exchange Carrier Association, Annual 1993 Access Tariff Filing, Tariff F.C.C. No. 5, Transmittal No. 546, filed April 2, 1993 (1993 Annual Access Tariff Filing).

carriers (ECs). NECA filed a compliance tariff on June 17, 1993, as required.[4] AT&T subsequently filed a petition to suspend and investigate NECA's GSF Compliance Filing, and in its Reply NECA demonstrated that AT&T's arguments were without merit.[5] NECA rates associated with its 1993 Annual Access Tariff Filing and GSF Compliance Filing went into effect on July 2, 1993.[6]

The Common Carrier Bureau adopted and released its <u>1993 Access Tariff Designation Order</u> the same day the petitions on the GSF compliance tariff filings were due. In this <u>Order</u>, the Bureau decided to suspend the GSF compliance tariffs for one day, to impose an accounting order and to institute an investigation for determining whether the GSF filings complied with the Commission's <u>GSF Order</u>.[7] The Bureau stated that this investigation was warranted "because of the limited time within which to conduct a necessary review of issues concerning the GSF filings and in an abundance of caution."[8] The issue designated for investigation was a simple one: "Have the LECs properly reallocated GSF costs in

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[4] National Exchange Carrier Association, Inc., Carrier Common Line and Traffic Sensitive Access Tariff Revisions, Transmittal No. 560, filed June 17, 1993 (GSF Compliance Filing).

[5] <u>See</u> NECA Tariff F.C.C. No. 5, Transmittal No. 560, Petition of American Telephone and Telegraph Company, filed June 23, 1993 and NECA GSF Reply, filed June 28, 1993.

[6] Differing tariff effective dates were made coincident pursuant to Special Permission No. 93-542, issued June 25, 1993.

[7] <u>1993 Access Tariff Designation Order</u> at ¶¶ 111, 112 and 118.

[8] <u>Id.</u> at ¶ 104.

accordance with the GSF Order?"[9] As NECA demonstrates in this Direct Case, the GSF Compliance Filing reflects the proper reallocation of GSF costs in accordance with the GSF Order.

II. DISCUSSION

A. NECA Properly Reallocated GSF Costs in its GSF Compliance Filing.

In the GSF Order, the Commission revised Section 69.307(b) of its rules (47 C.F.R. § 69.307(b)) to include Common Line (CL) investment in the formula for allocating GSF amounts. The Commission acknowledged that this correction was required to avoid an under-allocation of GSF investment to the CL category and an over-allocation of such investment to other access categories, including special access and switched transport.[10]

In compliance with the GSF Order, NECA proposed revisions to its Carrier Common Line (CCL) rates, Long Term Support (LTS) amounts, and Traffic Sensitive (T/S) switched and special access rates.[11] Supporting data and documentation were provided in accordance with the requirements of section 61.38 of the Commission's rules (47 C.F.R. § 61.38).

The GSF allocation change resulting from the GSF Order produced no impact on chargeable minutes of use for the NECA pool

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[9] Id. at ¶ 105(6).

[10] GSF Order at ¶¶ 2 and 11.

[11] See generally GSF Compliance Filing, Description And Justification (D&J).

ECs.[12] As a result of implementing the GSF Order, there was an additional assignment of revenue requirement to CL and a reduction in revenue requirement for T/S Switched Access and Special Access.[13] NECA End User Tariff revenues, however, did not increase since NECA's Base Factor Portion revenue requirement per line per month exceeds $6.00.[14]

To comply with the GSF Order's requirements, NECA took the following actions:[15]

1. NECA used the test period revenue requirements from its 1993 Annual Access Tariff Filing as a base for developing revised test period revenue requirements.

2. To revise the test period revenue requirements, NECA modified its forecast model to reflect the GSF allocation change and then reprocessed the data.

3. NECA collected data from its member ECs and then aggregated it to the NECA Pool TRP level of detail to produce revised test period forecasts for Common Line and Traffic Sensitive.[16]

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[12] In the GSF Compliance Filing, NECA also revised its rates to reflect an increase of its projected chargeable minutes of use (MOU) from the level filed in its 1993 Annual Access Tariff Filing. The resulting changes in rates are not at issue here.

[13] GSF Compliance Filing D&J at 3-4. Because 69 of the 1253 study areas that participate in the CL pool do not participate in the T/S Pool (1184 study areas in NECA's 1993 Annual Access Tariff Filing), fewer dollars were shifted out of the T/S Pool than were added to the CL Pool as a result of the GSF allocation change.

[14] NECA took several steps to ascertain the change in End User revenues for study areas that participate in NECA's CL Pool but file their own End User tariffs. See GSF Compliance Filing D&J at 8.

[15] These actions are more fully described in NECA's GSF Compliance Filing.

[16] GSF Compliance Filing at 7-8.

4. NECA also revised the allocation of NECA expenses pursuant to section 69.603 of the Commission's rules (47 C.F.R. § 69.603).

5. Projected End User revenues were determined by adding the sum of NECA End User tariff participants' revenue and End User revenues for companies filing individual End User tariffs. These revenues were then subtracted from the NECA pool CL revenue requirement to develop LTS amounts.

6. NECA calculated the pool CCL rates pursuant to section 69.105 of the Commission's rules (47 C.F.R. § 69.105) based on revised prospective originating and terminating CCL rates from the price cap ECs.

7. NECA revised the LTS amount based on the new projected CL revenue requirement and revised End User and CCL revenues.

8. NECA derived a rate adjustment factor for T/S Switched Access MOU-related rate elements to account for both the impacts of the GSF Order and the increase in chargeable MOU.[17]

9. NECA adjusted monthly T/S Special Access rate levels through the development of a rate adjustment factor.[18]

As can be seen from the above description and NECA's GSF Compliance Filing, NECA used approved methodologies to reflect the change in GSF allocation.

B. AT&T's Claims regarding NECA's GSF Compliance Filing are Without Merit.

As NECA fully detailed in its GSF Reply, AT&T's claims that 1) NECA failed to include the full effect of the reallocation of costs associated with Average Schedule companies and that 2) this "failure" results in understated CL charges and overstated LTS are

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[17] Id. at 15-16.

[18] Id. at 17-18.

without merit.[19] As explained in NECA's GSF Reply, the processes used are in compliance with Commission rules associated with Average Schedule Formula development.[20]

Sections 69.605 and 69.606 of the Commission's Rules direct NECA to develop Average Schedule formulas annually that produce disbursements for average schedule companies that simulate the disbursements that would be received by cost companies.[21] The process NECA uses to update these schedules each year relies on historical cost company results as a basis for schedule revisions to assure that the disbursements received by average schedule companies do, in fact, simulate disbursements that are received by cost companies.[22]

As required by Commission rules,[23] NECA made its 1993 Average Schedule Filing on December 31, 1992, nearly five months prior to the issuance of the GSF Order. The 1993 Average Schedule Filing,

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[19] AT&T Petition at 3 and note 9. AT&T also claimed that twenty-eight NECA Common Line pool participants failed to make the requisite rate changes in their individual T/S tariffs. Id. at 4. As NECA stated in its Reply, the revenue requirement contained in the GSF Compliance Filing reflects the revenue requirements of its pools' participants. NECA has no authority concerning the T/S filings of non-pooling T/S companies. NECA GSF Reply at 6.

[20] See NECA GSF Reply at 3-4.

[21] 47 C.F.R. §§ 69.605 and 69.606.

[22] The process used to develop revisions to the Average Schedule formulas is fully described in NECA's Proposed Revisions to the Interstate Average Schedule Formulas, submitted December 31, 1992 (1993 Average Schedule Filing).

[23] See 47 C.F.R. § 69.606(b).

recently approved by the Common Carrier Bureau, is in compliance with Commission rules in effect on December 31, 1992.[24]

Following established time-lines, NECA incorporates rule changes in its December 31 annual filing of proposed modifications to the average schedules. This assures that changes are adopted in an orderly fashion and that formulas are properly targeted. In cases such as the instant GSF rule change, where total interstate access average schedule revenue requirements for companies in the pool are only minimally affected, it is reasonable for the next routine average schedule update to reflect it. The initially-developed GSF rates were adjusted to account for the impact of the average schedule special access settlement formula through the application of a rate adjustment factor.[25]

NECA's decision to follow the Commission's established rules for average schedule formula development did not result in either an understatement of the CCL rates or overstated LTS. The CCL rate for the NECA pool participants is developed in accordance with section 69.105 of the Commission's rules,[26] and as such, requires NECA to use the weighted average of CCL prices of the price cap ECs

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[24] See NECA's Proposed Revisions to the Average Schedules for 1993, Order, DA 93-714, released June 28, 1993.

[25] Calculation of the rate adjustment factor to adjust for average schedule settlements is displayed in Volume 5 at Exhibit 12, Workpaper 11 of NECA's 1993 Annual Access Tariff Filing.

[26] See 47 C.F.R. § 69.105.

to determine the pool CCL rates.[27] NECA's GSF Compliance Filing reflects this requirement.[28]

In addition, had NECA been able to anticipate the impact of the GSF Order on average schedule companies and included it in the GSF Compliance Filing, the pool CL revenue requirement would have been higher, not lower as AT&T claimed. As discussed above, the CCL rate is based on the weighted average CCL prices of companies not in NECA's pool, rather than on pool company CCL revenue requirements. Consequently the additional CL revenue requirement attributable to Average Schedule Companies would flow directly to LTS obligations, resulting in increased LTS, not the decrease contemplated by AT&T.[29]

As stated in the GSF Compliance Filing and GSF Reply, NECA intends to reflect the allocation of GSF for average schedule companies in the formulas it submits to the Commission in December 1993.[30]

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[27] NECA GSF Reply at 4.

[28] See NECA GSF Compliance Filing D&J at 13-14 and Appendix 3, Exhibit 3.

[29] If other LECs must change their GSF allocation as a result of this investigation, NECA would revise the National Average CCL rate and finalize LTS accordingly.

[30] GSF Compliance Filing at note 21 and NECA GSF Reply at 5.

III. CONCLUSION

This Direct Case demonstrates that NECA's GSF rates are lawful, reasonable, in compliance with the GSF Order and should be allowed to remain in effect. The Commission should terminate its investigation into GSF reallocation with respect to the NECA access tariff rates.

Respectfully submitted,

National Exchange Carrier Association, Inc.

Joanne Salvatore Bochis
100 S. Jefferson Road
Whippany, NJ 07981

Its Attorney

July 27, 1993

AAD 93-193

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Direct Case were served this 27th day of July, 1993, by mailing copies thereof by United States Mail, first class postage paid, to the persons listed.

By Christine DeCarlo
Christine DeCarlo

The following parties were served:

Francine J. Berry
AT&T
295 North Maple Avenue
Basking Ridge, New Jersey 07920

Robert J. McKee
AT&T
295 North Maple Avenue
Basking Ridge, New Jersey 07920